

Economics 101 — Spring 2005

# International Trade

May 24, 2005

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## 1 Course Objectives

This course examines theories of international trade in goods and services, as well as international flows of labor and capital, and analyzes trade policies. The course presents the principle of comparative advantage and its application to classical and modern trade theory. Focusing on the long-term effects of international economic integration, the course discusses the motives for trade policies and presents the economic effects of trade barriers and trading blocs on industrial competitiveness, income distribution and welfare.

## 2 Prerequisites

Economics 1A-B-C. *Recommended:* Economics 100A-B or 170A-B.

## 3 Readings

**Required textbook:** Krugman and Obstfeld (2003)

**Required readings:** Feenstra (1998), Leamer and Levinsohn (1995);  
Mussa (1993); Horlick and Palmer (2001);  
Grossman and Helpman (1995); Rodrik (1992), Freeman (1995);  
Rodrik (1998), Williamson (1998)

The readings (articles) help you review the lecture material beyond the textbook. They are available through the class web page (see link above). Web links to copyrighted readings only work from on-campus domains.

## 4 Problem Sets

There will be three problem sets, due on scheduled dates throughout the quarter. You are encouraged to work on the problems with your classmates. Your teaching assistants Michael Ewens, Lindsay Oldenski, Jennifer Poole and Qun Xu will hold sections over the course of the quarter to help you approach the problems. Your solutions to the problem sets will be checked (check/no check) and your performance on them will be a part of the final grade. Problem sets have to be handed in *before* 9:30am on the due date. You may bring them to class before it starts.

Problem sets 1 through 3 will contain five exam-like but more elaborate questions, each counting three points. Problem set 3 will have one open question in addition, counting five points.

## 5 Assessment

There will be two midterm exams and a final exam. The two midterm exams will take 80 minutes each and the final exam will take 120 minutes. All exams are cumulative.

Your final raw score will be your total points from the three exams and the three problem sets:

Problem sets:	50 points (15+15+20 points)	4/14, 5/5, 5/31
Midterm 1 (80 minutes):	80 points	4/21
Midterm 2 (80 minutes):	80 points	5/12
Final (120 minutes):	120 points	6/9
<i>Total:</i>	330 points	

Midterm exams last for the time of a lecture. (Problem sets have to be handed in *before* 9:30am on the due date.) The final exam lasts 120 minutes.

Your final *letter grade* will be inferred from the typical grade distribution (curve) in *economics* classes at UCSD. You can find this grade distribution at [econ.ucsd.edu/muendler/teach/05s/101](http://econ.ucsd.edu/muendler/teach/05s/101). So, the difficulty or simplicity of problem sets and exams will not matter, whereas your relative performance in comparison to your classmates will determine your final letter grade.

We will offer review sessions to prepare you for the exams.

## 6 Class Schedule

### I. Classic Trade Theory

1. **Tue, March 29:** Introduction to International Trade  
(Krugman and Obstfeld 2003/Ch. 1)
  2. **Thu, March 31:** Comparative Advantage due to Productivity Differences  
(Krugman and Obstfeld 2003/Ch. 2)  
PROBLEM SET 1 OUT
  3. **Tue, April 5:** Multiple Goods and Specific Factors of Production  
(Krugman and Obstfeld 2003/Ch. 2)
  4. **Thu, April 7:** Comparative Advantage due to Endowment Differences  
(Krugman and Obstfeld 2003/Ch. 3)
  5. **Tue, April 12:** Mobile Factors and the Pattern of Trade  
(Krugman and Obstfeld 2003/Ch. 4)
  6. **Thu, April 14:** Implications for the Political Economy of Trade  
(Krugman and Obstfeld 2003/Ch. 3&4)  
PROBLEM SET 1 DUE
  7. **Tue, April 19:** The Standard Trade Model, the Terms of Trade, and Tariffs  
(Krugman and Obstfeld 2003/Ch. 5)
- Thu, April 21:** MIDTERM 1  
covering lectures 1 through 7 and Krugman and Obstfeld (2003)/Ch. 1 through 5

### II. Imperfect Competition and Trade Theory

8. **Tue, April 26:** Exogenous Economic Growth and Imperfect Competition  
(Krugman and Obstfeld 2003/Ch. 5&6)  
PROBLEM SET 2 OUT
9. **Thu, April 28:** Intra-industry Trade  
(Krugman and Obstfeld 2003/Ch. 6)
10. **Thu, May 3:** International Integration of Production  
(Krugman and Obstfeld 2003/Ch. 7 and Feenstra 1998)  
PROBLEM SET 2 DUE
11. **Tue, May 5:** Market Segmentation and Trade under External Economies of Scale  
(Krugman and Obstfeld 2003/Ch. 6)
12. **Tue, May 10:** Theories of Trade: The Evidence  
(Leamer and Levinsohn 1995)

**Thu, May 12: MIDTERM 2**

covering lectures 1 through 12, Krugman and Obstfeld (2003)/Ch. 1 through 6, Leamer and Levinsohn (1995) and Feenstra (1998)

**III. Trade Policy**

**13. Tue, May 17: Instruments of Trade Policy**

(Krugman and Obstfeld 2003/Ch. 8)

PROBLEM SET 3 OUT

**14. Thu, May 19: Costs and Benefits of Tariffs and Other Trade Restrictions**

(Krugman and Obstfeld 2003/Ch. 5&8))

**15. Tue, May 24: Trade Agreements**

(Krugman and Obstfeld 2003/Ch. 9), Mussa 1993, and Horlick and Palmer 2001)

**16. Thu, May 26: Aspects of Trade and Growth**

(Krugman and Obstfeld 2003/Ch. 6&10, and Grossman and Helpman 1995)

**17. Tue, May 31: Political Economy of Trade Policies**

(Krugman and Obstfeld 2003/Ch. 6&10, Rodrik 1992, and Freeman 1995)

PROBLEM SET 3 DUE

**18. Thu, June 2: Economic Integration: Past and Present**

(Rodrik 1998 and Williamson 1998)

**Thu, June 9 (Finals Week): 8:00am to 10:00am FINAL EXAM**

covering lectures 1 through 18, Krugman and Obstfeld (2003)/Ch. 1 through 10;

Feenstra (1998), Freeman (1995); Grossman and Helpman (1995), Horlick and Palmer (2001), Leamer and Levinsohn (1995), Mussa (1993), Rodrik (1992), Rodrik (1998), and Williamson (1998)

**References**

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FREEMAN, R. B. (1995): "Are Your Wages Set in Beijing?," *Journal of Economic Perspectives*, 9(3), 15–32.

GROSSMAN, G. M., AND E. HELPMAN (1995): "Technology and Trade," in *Handbook of international economics*, ed. by G. M. Grossman, and K. Rogoff, vol. 3 of *Handbooks in Economics*, chap. 25, pp. 1279–1337. Elsevier, North-Holland, Amsterdam, New York and Oxford.

HORLICK, G. N., AND C. R. PALMER (2001): "The Negotiation of a Free Trade Area of the Americas," *Integration and Trade*, 5(13), 151–64.

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- MUSSA, M. (1993): "Making the Practical Case for Freer Trade," *American Economic Review*, 83(2), 372–76.
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